



## Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Board of Administration for  
the Federated City  
Employees Retirement  
System

**SUBJECT:** See Below

**DATE:** May 11, 2005

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### REASON FOR ADDENDUM

In order to have our Federated Retirement System's Reserve Account adjusted in time for the annual fiscal audit and actuarial study, this ordinance must be adopted and effective before the end of the fiscal year.

### RECOMMENDATION

Approval of an ordinance of the City of San Jose repealing Section 3.28.220 and amending Sections 3.28.200 and 3.28.340 of Chapter 3.28 of Title 3 of the San Jose Municipal Code to simplify the system of reserves in the Federated City Employees Retirement Fund.

### BACKGROUND

The current system of maintaining reserves accounts in the Federated Retirement System has existed since the Plan was established in 1975, with the exception of the Supplement Retirees Benefit Reserve that was added in 1986. The current system is costly to maintain and requires additional work when developing data for our biannual actuarial study. The current six reserves can be reduced to three reserve accounts and still properly account for the assets of the Federated Retirement System. Collapsing the Federated six reserves to three would align its reserve system with the Police and Fire Fund.

### ANALYSIS

The reserve structure of the San José Federated City Employees Retirement System contains the following:

1. Employees' Contribution Reserve - contains accumulated employees' contributions and interest for non-retired employees. This reserve will be maintained.
2. Employer Contribution Reserve - contains the contributions by the employer. This would be a part of a new general reserve.

3. Retired Employees Annuity Reserve - from which benefits are paid. This would be a part of a new general reserve.
4. Benefits Payable Reserve - which contains interest excess interest earnings. This would be combined with a new general reserve.
5. Contingency Reserve - would be combined with a new general reserve.
6. Supplemental Retirees Benefit Reserve (SRBR) - would be maintained.

The new General Reserve would accumulate all moneys not required to be in the Employees' Reserve and not required to be in the SRBR. This both simplifies the accounting as well as actuarial work. The current system is archaic and unnecessary in today's environment.

The Federated Retirement System's actuarial firm has reviewed the recommendations on the reserve system and is of the opinion that we should go forward as is indicated in this report. The actuary concludes that the complexity of the current system requires a great deal of unnecessary work to implement and creates the opportunity for errors that would not exist with a simpler system. The actuary also indicated that most plans the size of the San José Federated System have much simpler reserve systems. This change would not affect the integrity and assets of the Federated Retirement Plan.

### **OUTCOME**

Simplify the structure for the Federated Reserve Accounts, lower costs for actuarial work and the reduction of possibility of errors.

### **PUBLIC OUTREACH**

Not applicable.

### **COORDINATION**

This ordinance has been coordinated with the City Attorney's Office, Office of Employee Relations and Federated Bargaining Groups.

### **CEQA**

Not a project.



Edward F. Overton, Secretary  
Board of Administration